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Mid-Atlantic Clearing House Association

KIMBERLY W. RECTOR, AAP
DIRECTOR OF EDUCATION

May 1, 1998

Cynthia L. Johnson
Director, Cash Management Policy and Planning Division
Financial Management Service
U.S. Department of the Treasury
401 14th Street, SW Room 420
Washington, DC 20227

Re: Notice of Proposed Rulemaking
31 CFR Part 210
Federal Government Participation in the Automated Clearing House

Dear Ms. Johnson:

On behalf of the Mid-Atlantic Clearing House Association (MACHA), I respectfully submit these comments in response to the notice of proposed rulemaking issued by the Financial Management Service regarding changes to 31 CFR 210 which governs the use of the Automated Clearing House (ACH) system by Federal agencies. The Mid-Atlantic Clearing House Association is a not-for-profit organization engaged in supporting and promoting electronic transfer of funds between member financial institutions nationwide. Our Association provides a continuous flow of information and educational training to our member financial institutions. Our primary goal is to ensure that member financial institutions have access to and understand the governing rules of the Automated Clearing House system including the regulations that govern Federal ACH transactions.

MACHA would like to comment on two of the proposed changes documented in the notice of proposed rulemaking. In the proposal, section 210.4 Authorizations and Revocations of Authorizations indicates that the agency or the RDFI that accepts the recipients authorization shall verify the identity of the recipient and, in the case of a written authorization requiring the recipient's signature, the validity of the recipients signature. Under the National Automated Clearing House Association ACH Operating Rules, the Originating Depository Financial Institution provides warranty that all transactions released into the ACH payment system are authorized. Additionally, the Originator is required under the ACH Operating rules to obtain authorization from the Receiver for all debit transactions prior to any live transactions. Receiving Depository Financial Institutions provide an elective service when they assist their account holders with authorizations. Receiving Depository Financial Institutions should be expected to follow accepted practices for identifying the recipient and verifying the authorization

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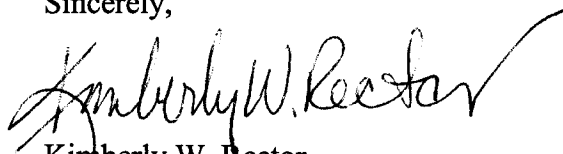
Page 2
MACHA Response
May 1, 1998
Notice of Proposed Rulemaking
31 CFR 210

information and by doing so should not be held liable for forged authorizations. The Receiving Depository Financial Institution is not in a position to determine who is entitled to the payment being authorized.

Section 210.8 of the proposal references financial institutions and their requirement to verify prenotification transactions. Under the current ACH Operating Rules a financial institution is required to verify the validity of the account number contained in the prenotification transaction. The proposal would require financial institutions to verify at least one other identifying data element in the prenotification. MACHA believes that this requirement would place undue processing and financial burden on financial institutions regardless of their size. It would be extremely cumbersome and technically difficult for the Receiving Depository Financial Institutions to verify data element fields in which they have no input over the field information. For example, under the current ACH Operating Rules the Individual Name field can contain a maximum of twenty-two (22) alphanumeric characters. This field is completed by the Originator of the ACH transaction and the name field can contain the last name first, or first name followed by last name, and in many cases the name is longer than the twenty-two positions allocated. The cost allocation by financial institutions to comply with the rule provision, based on the expected increase of prenotification transactions originated by the Federal government, may supersede the cost of misdirected payments.

The Mid-Atlantic Clearing House Association is committed to promoting the use of electronic payments and ensuring that our members understand and are able to comply with applicable regulations. We thank you for the opportunity to comment on the proposed changes. If you have any questions regarding MACHA's comments, please do not hesitate to contact me at (410) 859-0090.

Sincerely,

A handwritten signature in black ink, appearing to read "Kimberly W. Rector", with a large checkmark at the end.

Kimberly W. Rector
Director of Education